

Amendment Agreement for the Acquisition of Air Europa

International Airlines Group ("IAG") and Globalia today announce that they have amended the original agreement announced on 4 November 2019 (the "Original Agreement") under which IAG's subsidiary, Iberia, has agreed to acquire the entire issued share capital of Air Europa (the "Amendment Agreement") (the "Acquisition").

Under the terms of the Amendment Agreement, the parties have agreed that the amount to be paid by Iberia for Air Europa will be reduced from an equity value of €1 billion to €500 million with payment deferred until the sixth anniversary of the Acquisition's completion.

The revised terms in the Amendment Agreement are conditional on the satisfactory negotiation between Iberia and Sociedad Estatal de Participaciones Industriales ("SEPI") regarding the non-financial terms associated with the financial support provided by SEPI to Air Europa during 2020. Iberia intends to begin discussions with SEPI shortly concerning these conditions.

Assuming satisfaction of all conditions of the Amendment Agreement and the Acquisition, completion is expected to take place in the second half of 2021. The Acquisition is still subject to approval by the European Commission.

Strategic Rationale and Financial Impact

The Board of IAG continues to believe that the Acquisition remains strategically important for the future of IAG and Iberia and positions the Group to benefit from growth opportunities as the industry emerges from the unprecedented impact of the COVID-19 crisis. The benefits of the Acquisition include:

- Increasing the importance of IAG's Madrid hub, transforming it into a true rival to Amsterdam, Frankfurt and Paris Charles de Gaulle;
- Unlocking further network growth opportunities; and
- Delivering significant customer benefits through providing increased choice and schedule flexibility and greater opportunities to earn and redeem miles.

IAG continues to expect the Acquisition to generate significant cost and revenue synergies, with full run-rate synergies similar to those originally envisaged and now expected by 2026. The Acquisition is expected to be earnings accretive in the first full year following completion, deliver considerable value to the Group through synergy generation prior to the payment of the consideration on the sixth anniversary of completion, and generate returns on invested capital in line with those historically achieved by IAG by then.

Assuming completion in the second half of 2021, IAG will be taking on Air Europa at a time when air travel recovery could be meaningful as the rollout of COVID-19 vaccines proceeds worldwide. Net cash outflow to IAG of this transaction is expected to be minimal in 2021 and net cash flows are expected to be positive until at least the repayment of the loan from SEPI in 2026 when merger synergies are expected to be at their full run-rate.

Luis Gallego, IAG's chief executive, said:

"Both Iberia and IAG are demonstrating their resilience to face the deepest crisis in aviation's history. Being part of a large group is the best guarantee to overcome current market challenges which will also benefit Air Europa once the transaction is completed. I am pleased that we have reached agreement with Globalia to defer payment until well into the expected recovery in air travel following the end of the pandemic and when we expect to be realising significant synergies resulting from the transaction."

Javier Hidalgo, Globalia's chief executive, said:

"This transaction is a great effort by all of us and is the best way to recover tourism, transport in Spain and the Madrid hub."

Javier Sánchez-Prieto, Iberia's chief executive, said:

"This transaction makes perfect strategic sense to reinforce Madrid's hub competitiveness on a global stage. It will benefit consumers and Air Europa's incorporation into the Iberia Group will improve the company's viability benefitting both Iberia and Air Europa employees."

The Acquisition constitutes a Class 2 transaction for the purposes of the UK Financial Conduct Authority's Listing Rules and, as such, does not require IAG's shareholders' approval.

The gross assets of Air Europa at 31 December 2019 were €967 million. Revenue of €2.1 billion, operating profit of €71 million and pre-tax profit of €42 million were attributable to Air Europa for the year ended 31 December 2019. These figures are based on Spanish GAAP. Air Europa carried 13.1 million passengers in 2019. Passenger volume declined by approximately 70 per cent in 2020.

Air Europa currently has an operating fleet of 52 aircraft compared to 68 at the end of 2019. All aircraft except one are on operating lease. IAG estimates the IFRS 16 lease liabilities of Air Europa to be c.€1.6 billion as of the end of 2020.

Notes to Editors

Air Europa is one of the leading private airlines in Spain, operating scheduled domestic and international flights on European and long-haul routes to Latin America, the United States of America, the Caribbean and North Africa.

On 4 November 2019, IAG announced that it had offered to acquire the entire issued share capital of Air Europa for €1 billion to be satisfied in cash at completion, which had been expected to happen in the second half of 2020.

On 18 May 2020, Air Europa signed a syndicated loan agreement for a €141 million 5 year term loan partially guaranteed by the Instituto de Crédito Oficial (ICO). This arrangement was within the legal framework set up by the Spanish government to mitigate the economic impact of COVID-19.

On 31 July 2020, IAG disclosed that it was in active discussions with Globalia regarding a potential restructuring of the Acquisition, taking into account the impact of the COVID-19 pandemic.

On 11 November 2020, SEPI approved loans of up to €475 million for 6 years to be provided to Air Europa in order to support its liquidity during and after the pandemic. The approval of these loans was subject to certain non-financial conditions. The financial net debt of Air Europa, including the drawn ICO and SEPI loans, was approximately €500 million as of the end of 2020.

Stephen Gunning
Chief Financial Officer

19 January 2021

LEI: 959800TZHQRUSH1ESL13

This announcement contains inside information and is disclosed in accordance with the Company's obligations under the Market Abuse Regulation (EU) No 596/2014.